

# **Assessing Risk: Everybody Has a Role**

Administrative Office of the United  
States Courts

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## **Judiciary Background**

- ? 32,000 Employees
- ? \$6 Billion Annual Appropriation
- ? \$500 Million Spent on Contracts
- ? \$30 Billion Registry Funds
- ? 94 Independent Judicial Districts
- ? 13 Independent Circuits
- ? 600 Geographic Locations

## **Judicial Districts**

Each Judicial district is composed of the following court units:

- ? District Court
- ? Bankruptcy Court
- ? Probation Office
- ? Pretrial Services Office
- ? Federal Public Defender

## **Role of the Administrative Office of the United States Courts**

The AO provides administrative support services for all Judiciary activities. In the financial arena, the AO provides the Judiciary with the following:

- ? Accounting Systems
- ? Fine Collection Systems
- ? Registry Fund Investment System
- ? Personnel and Payroll Systems
- ? Criminal Justice Act Payment System

## **Office of Audit**

- ? Provides audit services for all Judiciary financial activities through a combination of in-house staff auditors and contract auditors
- ? The core audit services provided by the Office of Audit is the audit of all federal court units
- ? Financial audits of all courts are performed by contract auditors
- ? Certified financial statements are issued as a result of each court audit

## **Assessing Risk**

- ? The Judiciary is not subject to the OMB Circular requiring risk assessments
- ? The Judiciary strives for voluntary compliance with the OMB Circular, utilizing a different risk model
- ? Financial and administrative operations of the Federal Court system is a relatively low risk

## **Managing Risk**

- ? While overall risk is low, in the areas where a higher degree of risk exists, the Judiciary “manages” the risk by:
- Ensuring that there are effective internal controls over individual Judiciary processes and procedures
  - Conducting periodic audits of all court unit financial statements and procedures
  - Assessing “control risk” at maximum for the vast majority of its financial activities

## **Judiciary Risk**

The Office of Audit has designated two critical activities as having “maximum risk”:

**Activity:**

**Individual Court  
Operations**

**Risk Level: Maximum**

**Loss of funds**

**Improper procurements**

**Control over sensitive court  
exhibits and seized property**

**Weapon inventory**

## **Judiciary Risk**

The Office of Audit has designated two critical activities as having “maximum risk”:

**Activity:**

**Implementation of  
New Financial  
Systems**

**Risk Level: Maximum**

**Inaccurate financial records  
Compromise data base**

## **Court Audit Cycle Based on Risk**

Frequency of individual court audits is determined by the Office of Audit based upon the following risk factors:

- Court size
- Number and type of prior audit findings
- Volume of financial transactions
- Dollar value of financial transactions

### ? Audit Cycle:

- 2 ½ year cycle for large and higher-risk courts
- 4 year cycle for all other courts
- Supplemented by annual evaluations of internal control procedures performed by the individual court units

## **New Financial System Audit Risk**

- ? The Office of Audit has determined that the implementation of new financial systems is subject to a maximum level of risk.
- ? As a matter of policy, the Office of Audit conducts comprehensive application and control reviews of all new financial system implementations
- ? Key risk factors in determining the level of risk include:
  - Volume of financial transactions
  - Dollar value of financial transactions
  - Disbursement process
  - Cash intake process
  - Origin of the software
    - Off-the-shelf commercially available
    - Software programmed in-house by employees and contractors

## **Financial System Audit Risk**

### ***RISKS***

#### **Commercially Available Software**

**Low Risk of accuracy of  
transaction processing**

**Low risk of systems  
documentation**

**High risk for controls  
over transaction  
processing**

#### **In-House Programmed Software**

**High risk for accuracy of  
transaction processing**

**High risk for systems  
documentation**

**High risk for the controls  
over transaction processing**

## **Judiciary Audit Risks – Loss of Funds**

### **Source of Funds**

### **Risk**

**Criminal Fines,  
Restitutions and Bail  
Collections**

**Loss or misappropriation of  
funds**

**Registry Funds**

**Loss of private funds  
entrusted to the courts**

**Civil Fine  
Collections**

**Loss or misappropriation of  
funds**

## **Criminal Fines and Bail Collection Risk**

- ? The handling of large amounts of checks, money orders, and cash is subject to a maximum level of risk
- ? Not uncommon to receive large amounts of cash
- ? Risk is managed by instituting strong internal controls at the front counter:
  - Two people counting the cash
  - Sign off on the transfers of accountability
  - Immediate deposit of cash in federal depositories

## **Large Registry Funds Risk**

? The Office of Audit has designated all Registry funds as having “maximum risk:”

- Lose someone else’s money
- Misapply payments to wrong individuals
- Huge amounts
- Sits around for years

? Sometimes individual courts preferred not to administer large registry funds associated with court cases. These funds are invested in the Court Registry Investment System

## **Fine Collection Center**

The Central Violations Bureau (CVB) is a national center charged with processing violation notices (tickets) issued and payments received for petty offenses committed on Federal property.

- ? Tickets are issued on federal property throughout the country for minor offenses like speeding, parking, and campfires
- ? Most tickets are issued on military bases, but many tickets are issued at national parks, post offices, and VA hospitals
- ? A huge issuer of Federal tickets is the Park Police for the federal highways around D.C.
- ? 400,000 federal tickets are processed every year at the CVB
- ? \$25M in fines collected this year at the CVB

## **Fine Collection Center Risk**

- ? The Office of Audit has designated the CVB fine collection operations at maximum risk due to the million in cash, checks, and money orders processed every year
- ? Prior to 1991, fines totaling \$7M per year in cash, checks, and money orders were processed at the fine center
- ? Logistics of opening the mail, recording the payments, and reconciling and depositing the collections, all under secure conditions, were extremely cumbersome and prone to error

## **Managing Fine Collection Center Risk**

- ? Judiciary top management instituted strong internal controls to manage the collection center risk by moving the CVB to a lock box system in 1991. \$24.5M (98%) of all funds are now directed through the lock box. \$500,000 (2%) of all funds are still received at CVB.

## **Judiciary Audit Risks – Procurement Activity**

The Office of Audit has determined that the procurement activity in the courts is always subject to a maximum level of risk.

Procurement risk associated with circumventing procurement regulations is managed by the Office of Audit through the utilization of data mining techniques. Data mining reports focus on areas of high risk. They analyze large volumes of transactions for the audit period and identify specific individual transactions for additional focus and scrutiny.

Specifically, these reports focus on the following high risk areas:

- Procurement thresholds
- Procurement trends
- Vendor analysis

## **Sensitive Court Exhibits and Seized Property** **Risk**

- ? Drugs
- ? Guns
- ? Large Amounts of Cash
- ? Diamond Rings
- ? Machetes
- ? Passports
- ? Gold Teeth

## **Weapons Risks**

- ? Probation and Pretrial Services Officers are authorized to carry weapons
- ? Risk is that weapons could be lost or stolen
- ? Risk is managed by:
  - Performing 100% inventory of all weapons in each district's armory
  - Requiring officers to bring in issued weapons for serial number verification

# U.S. COURTS

THE FEDERAL JUDICIARY

Questions???